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FISCAL IMPACT STATEMENT

LS 6390 **NOTE PREPARED:** Feb 20, 2012
BILL NUMBER: SB 321 **BILL AMENDED:** Feb 20, 2012

SUBJECT: Transportation and Logistics Income Tax Credit.

FIRST AUTHOR: Sen. Wyss **BILL STATUS:** CR Adopted - 2nd House
FIRST SPONSOR: Rep. Thompson

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: (Amended) The bill provides an income tax credit for new expenditures made before January 1, 2018, by a taxpayer for expenditures related to a project that will substantially enhance the logistics industry, create new jobs, preserve existing jobs that otherwise would be lost, increase wages in Indiana, and improve the overall Indiana economy. It specifies that covered expenditures include those for real property improvements related to a transportation or logistical distribution facility, improving the transportation of goods on Indiana highways, rail, water, and air, improving warehousing and logistical capabilities, and implementing required federal homeland security measures. The bill requires the Indiana Economic Development Corporation (IEDC) to approve the credit. It requires the IEDC to make determinations in the award of the credit. It requires the taxpayer to enter into an agreement with the IEDC that covers the benefits of the project, the expected performance by the taxpayer, and the credit amount. It requires reports by the taxpayer to the IEDC and requires the IEDC to monitor the performance of the taxpayer. It provides that the amount of the approved credit for a taxable year may not exceed: (1) 25%; multiplied by (2) the amount of the new qualified expenditures made by the taxpayer during the taxable year. It limits the credit that may be claimed for a taxable year to the taxpayer's state tax liability for that taxable year. It allows the taxpayer to carry over any unused credit for nine years. It provides that the credit may not be refunded, carried back, or transferred to another taxpayer. It limits the credit to $20,000,000 for each state fiscal year. It requires the Department of State Revenue to annually report to the State Budget Committee concerning the use of the credit, including summary information and the name and address of each taxpayer claiming the credit and the credit amount claimed by each taxpayer. It also requires the IEDC to report to the General Assembly regarding the credit.

Effective Date: (Amended) July 1, 2012; January 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR)*: The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the new tax credit. The DOR would also incur administrative expenses to report annually on the use of the credit. The DOR's current level of resources should be sufficient to implement the new tax credit.

Indiana Economic Development Corporation (IEDC): The bill requires the tax credit to be approved by the IEDC. The bill requires the IEDC to administer credit application and review procedures, and it specifies requirements the IEDC must follow for approval of tax credits and for the tax credit agreement entered into by the IEDC with the tax credit recipient. The IEDC's current level of resources should be sufficient to implement these procedures and requirements.

(Revised) *Indiana Department of Homeland Security (IDHS)*: This bill requires the IDHS to certify certain expenditures for implementing homeland security measures as being qualified for the new tax credit. This provision will likely increase expenditures for the IDHS. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon administrative actions.

Explanation of State Revenues: (Revised) *Summary* - The bill establishes an income tax credit for certain logistics investment and investment relating to homeland security measures made in Indiana by individual and corporate taxpayers. The tax credit would be subject to the approval of the IEDC and, in the case of homeland security investment, also subject to the approval of the IDHS. The tax credit would be available for qualified investment made after June 30, 2012 and before January 1, 2018. The tax credit would be determined by the IEDC up to a maximum of 25% of the qualified logistics investment. The annual revenue loss from this credit is indeterminable and, depending on IEDC action, could be significant based on historical underlying growth in logistics and transportation investment. The bill limits the amount of credits that may be approved to $20 M per fiscal year. The revenue loss would begin no earlier than FY 2014 since the bill prohibits a taxpayer from claiming credits on a tax return or using credits as a basis for estimated payments until after June 30, 2013.

(Revised) *Background Information:* The tax credit would have to be approved by the IEDC. The credit would be equal to an amount approved by the IEDC up to 25% of new expenditures for: (1) improvements to real property in Indiana related to constructing a new, or modernizing an existing transportation or logistical distribution facility; (2) infrastructure, facilities, or equipment to improve the transportation of goods on Indiana highways; (3) infrastructure, facilities, or equipment to improve the transportation of goods by rail; (4) infrastructure, facilities, or equipment to improve the transportation of goods by water; (5) infrastructure, facilities, or equipment to improve the transportation of goods by air; (6) facilities or equipment to improve warehousing and logistical capabilities; and (7) implementing a homeland security measure to comply with federal homeland security requirements. Under the bill, new qualified expenditures would be the qualified expenditures in the tax year exceeding 110% of the average annual qualified expenditures during the two immediately preceding tax years.

The credit could be claimed against the individual adjusted gross income (AGI) tax, the corporate AGI tax, the financial institutions tax, and the insurance premiums tax. Revenue from these taxes distributed to the state General Fund. Unused credits not claimed in the year of approval could be carried forward for an additional 9 years. The bill prohibits carry back of unused credits and prohibits selling, assigning, or transferring credits.

Estimates using national investment data suggest that from 1999 to 2010 aggregate fixed investment on structures in the warehouse and transportation sectors in Indiana grew as defined by the bill in 7 of the 12 years. The average annual growth totaled $53 M to $62 M during the 7 growth years. In addition, the 5 years of decline still could have generated growth as defined by the bill on an individual firm level, but this growth is not discernible in the aggregate data. Estimates relating to fixed investment on equipment and software in Indiana are not estimated as the national data is not sufficiently detailed to exclude expenditures on vehicles and other equipment that would not be creditable under the bill. The amount of the investment totals that may have been connected to construction or improvement of multimodal transportation facilities as specified under the bill is unknown.

The estimates of Indiana fixed investment on structures in the warehouse and transportation sectors were derived from National Income Product Accounts data from the U. S. Bureau of Economic Analysis. The national fixed investment totals were allocated to Indiana based on the ratio of Indiana GDP to U.S. GDP in the warehouse and transportation sectors and the ratio of Indiana Employment to U.S. Employment in the warehouse and transportation sectors.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOR; IEDC; IDHS.

Local Agencies Affected:

Information Sources: GDP, Employment, and Fixed Investment Data from Bureau of Economic Analysis, http://www.bea.gov/.

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